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RATING ON UNIMPROVED VALUE IN NEW ZEALAND¹

Rating on unimproved value should be clearly distinguished from the ordinary and graduated taxes on land levied by the general government, but a brief sketch of the latter system will help in the explanation of the former, for they are historically and logically connected with one another.

Prior to 1892 the revenues of the government, chiefly derived from duties on imports, were supplemented by a tax of one penny in the pound on all assessed real and personal property, with an exemption of £500 from the total of each assessment. In the year ending March 31, 1892, this tax yielded £356,741. Additional revenue was needed; there was agitation in favor of breaking up the large estates, and there were abuses connected with the general property tax, so that, in the year 1891, the Land and Income Assessment Act was passed, abolishing the property tax and establishing in its place taxes on land and incomes.

From a fiscal point of view the new taxes were very successful, yielding in the year 1892-93 the sum of £364,548, and in the year 1905-6 the large amount of £647,572, of which the land-taxes yielded £385,756. Of this amount the ordinary land-tax yields about £281,000, and the graduated land-tax £105,000.

The act of 1891 allowed deductions for improvements up to £3,000, but, by the amended act of 1897, the value of all improvements was exempted from taxation. The Consolidation Act of 1900 is now in force, with amendments made in 1903. The rate of the ordinary land-tax is fixed by the annual taxing act. At present it is one penny in the pound on the unimproved value. The tax on mortgages is $\frac{3}{4}$ of a penny in the pound, and is paid by the mortgagee. An owner whose land is mortgaged is allowed to deduct the amount of the mortgage from the total unimproved

¹ Read at the National Conference on State and Local Taxation, held at Columbus, Ohio, November 12-15, 1907, under the auspices of the National Tax Association.

value, but the full value of mortgages on land owing to him is added to his assessed valuation. If such net value is less than £1,500 the owner pays no tax; if it is £1,500 he pays on £1,000, and there are diminishing exemptions up to £2,500, beyond which there is no further exemption.

The graduated land-tax begins with a tax of $\frac{1}{16}$ of a penny in the pound when the unimproved value in any assessment amounts to £5,000, and increases by sixteenths to a maximum of $3d$ in the pound on estates whose unimproved value is £210,000 or more. Mortgages are not chargeable with graduated taxation, nor deductible in assessments. Non-resident owners pay an additional tax of 50 per cent. on the amount of the graduated tax. A non-resident owning land of which the unimproved value was £210,000 would pay the ordinary tax of $1d$ in the pound, a graduated tax of $3d$ and an additional tax of $1\frac{1}{2}d$, making a total of $5\frac{1}{2}d$ in the pound, or 2.3 per cent. of the unimproved value. An official return presented to the House during the session of 1906 showed that there were sixty-three rural estates of an unimproved value of £50,000 and upward, fourteen estates with an unimproved value of £100,000 and upward, one estate of 218,866 acres valued at £214,978, and one of 101,221 acres valued at £276,118. The capital value of the two largest estates was £214,978 and £276,118.

Because of the deductions and exemptions mentioned above, the burden of the land-tax falls altogether upon relatively large holders. In the year 1905-6, out of 145,000 land-holders only 24,246 paid any land-tax at all, and of these one-half paid less than £5.

The land-tax, together with other legislation, and the natural tendency toward the division of large holdings, have had some effect in reducing the size of the great estates. In the year 1896-97, 17.5 per cent. of the holdings were of 320 acres and over, and 90 per cent. of the total acreage was thus held, while in 1905-6 such holdings were 20.6 per cent. of the whole, and included 89 per cent. of the total acreage. The great estates, however, show a relative decline in number and acreage. In 1896-97 there were 501 holdings of 10,000 acres and over, con-

taining fifty-four per cent. of the total acreage, and in 1905-6 there were 502 of such holdings, containing 47 per cent. of the total acreage. In 1896-97 there were 112 holdings of 50,000 acres and over, comprising 30 per cent. of the total acreage, while in 1905-6 there were 90 holdings of this class, comprising 24 per cent. of the total acreage.

For a number of years the policy of the government has been directed toward the breaking-up of the great estates. In the year 1892 the Cheviot estate of 84,755 acres was bought for £260,220, under the Land and Income Assessment Act, and presently sold or leased to a large number of small holders. In the same year was passed the first of a series of Land-for-Settlements Acts, under which 938,173 acres have been bought by the government and leased in perpetuity to small holders. Many of these small holders have made large profits upon the land thus acquired, while the country has gained much from closer settlement and more intensive farming.

During the session of 1906 the government brought in a bill to limit the holdings in rural land of any individual or corporation to an unimproved value of £50,000. The bill met with strong opposition and was dropped, but in the present session another bill has been introduced, providing for a considerable increase in the progressive tax on lands of which the unimproved value is £40,000 and over.

Before the year 1896 there was no uniformity in the system of valuing land. The Land-Tax Department periodically employed a small army of temporary valuers, and each local authority had its own method of making up its roll for the levying of rates. But on October 17, 1896, the Government Valuation of Land Act was passed, amended in 1900 and 1903, for the purpose of securing uniformity in valuation, particularly in the administration of the land-tax and the rating on unimproved value.

The act provides for the appointment of a valuer-general and district valuers, to hold office during pleasure. The district valuers reside in their districts, soon become expert in their work, and generally command the confidence of the people. There is little or no corruption or bribery. At first the valuation was

about ten per cent. less than the true selling value, but presently much less, because of increase in land values. The valuation is not made at stated times but is constantly being revised, although it is sometimes out of date. The officials state that there are no insuperable difficulties in the way of determining unimproved values and that the results are approximately correct.²

The valuation of all the land and improvements in New Zealand was completed in 1898. The unimproved value was given as £84,401,244, and the value of improvements £54,190,103. In the year 1906 the unimproved value was £137,168,548 and the value of improvements £81,254,004.

The Rating on Unimproved Value Act of August 13, 1896, amended in 1900 and 1903, was a piece of legislation brought about largely by the influence of a few followers of Henry George, and was designed to give local governing bodies an opportunity of testing single-tax theories on a small scale. It was supported by the laboring-class in general, who complained of high rents, and by many other persons in places where land was held for speculative purposes.

Before the passage of the act local rates were levied upon the capital value or the annual value of real estate, as determined by valuers appointed by the local authorities. The act provides for local option in taxation, in that counties, boroughs, town districts, road districts, and other rating bodies may decide as to whether their rates shall be levied on the unimproved value, as determined by the government's valuation, or upon the annual or capital value of real estate as heretofore. A written demand, signed by from 15 per cent. to 25 per cent. of the ratepayers, according to the number of ratepayers in the rating district, must

² The act of 1896 defined *unimproved value* as "the difference between the total capital value of the whole property and the total capital value of all buildings and improvements," but the definition was found to be inadequate and the amendment of 1900 gives a number of more elaborate definitions, as follows:

"*Improvements on land* means all work actually done or material used thereon by the expenditure of capital or labor by any owner or occupier of the land, nevertheless in so far only as the effect of such work or material used is to increase the value of the land, and the benefit thereof is unexhausted at the time of valuation. . . ."

first be presented to the chairman of the district, requesting that the act be submitted to a vote of the ratepayers, and the vote must be taken between twenty-one and twenty-five days after delivery of the demand.

Under the original act it was necessary for at least one-third of the ratepayers to vote, and a majority of their votes carried the proposal. Because of this provision the act failed to be carried in a number of districts, but now the Local Government Voting Reform Act of 1899 provides that a bare majority of the valid votes recorded is sufficient to adopt the act. If the act is adopted, no rescinding proposal can be submitted to the ratepayers until the expiration of at least three years, and if a rescinding proposal is carried no adoption proposal may be submitted until after three years have elapsed.

Section 20 of the act reads as follows: "This act shall not apply to water rates, gas rates, electric-light rates, sewage rates, or hospital and charitable-aid rates."

During the parliamentary session of 1905 a bill was introduced into the House by Mr. Henry George Ell to amend the principal act so as to permit the local authorities to levy "all or any of the rates mentioned in sec. 20 upon the unimproved value." This proposal excited great opposition and a spirited debate, and the bill was lost. It shows, however, that the single-taxers of New Zealand are not satisfied with the small measure of land taxation which they have secured, and that they favor local option only as a means to an end, and, if possible, would make rating on unimproved value not optional but mandatory in every rating district in the Dominion.

Up to May 15, 1899, the act had been submitted to the ratepayers in 23 districts, and in 21 cases received large majorities, the minorities in most cases being remarkably small. In 8 cases less than one-third of the ratepayers voted, and the act was rejected, but in all of these districts it was carried at a later date. Up to March 31, 1906, the act had been rejected by 12 districts and adopted by 69, including 2 cities out of a total of 4, 19 counties out of 97, 38 boroughs out of 97, 9 road districts out of 214, and one town district out of 32. In the year 1904 the act

was carried by 6 districts and rejected by 1; in 1905 it was carried by 6 districts and rejected by 6. No district has ever rescinded the act, although 3 proposals to rescind have been made, and in 2 cases a strong opposition was developed. In the third case the vote on both sides was less than when the act was carried. The vote is seldom a large proportion of the total ratepayers.

The indifference of many ratepayers to the rating of unimproved value is probably due chiefly to the fact that the rates in most districts are not a heavy burden upon the property-holders. The general government supports the public schools and many charitable institutions, spends large sums of money on roads and other public works, bears the expense of valuation, and even grants subsidies to the local bodies. The chief items of local expenditure are for roads, bridges, drainage, harbors, charitable aid, and hospitals. Besides, over one-half of the local revenues are derived from licenses, rents, governmental subsidies, and other sources. In the year 1904-5 the total revenue from rates in all the local bodies in New Zealand was £1,019,431. In the same year the total unimproved value was £122,937,126, so that the total rates were 0.83 of 1 per cent. of the total unimproved value; and, if we suppose the valuation to be 80 per cent. of the true value, the rates were only two-thirds of 1 per cent. of the true unimproved value. In counties and small boroughs the rates are very low, but in the larger towns they are much higher than the average. In Wellington they are 1.1 per cent. of the unimproved valuation, in Christchurch 1.2 per cent., in Invercargill 1.8 per cent., in Devonport 1.7 per cent., and in Stratford 2 per cent.

Early in the year 1906 the government made an investigation of the working of the act in all the districts where it had been adopted, and the report has recently been published as a Blue-Book by the British government; but since the complete report was not accessible, the present writers made a similar investigation by means of a series of questions sent to the clerks of all the local bodies, 69 in number, that had adopted the act. Forty

replies were received, of which 35 gave satisfactory answers. The questions and a summary of the replies are here given.

1. Has the system had any marked effect in discouraging the holding of land for speculative purposes? Yes, 12; No, 19; Indefinite, 4.

2. Has the system unduly forced people to part with land used for private gardens? Yes, 4; No, 22; Indefinite, 9.

3. Do you attribute to the system any alteration in the prosperity of your county, district, or borough? Yes, 7; No, 22; Indefinite, 9.

4. Has the system caused any appreciable increase of buildings or other improvements? Yes, 12; No, 14; Indefinite, 9.

5. Has the system caused buildings to be erected in advance of requirements? Yes, 3; No, 32.

6. (a) Do you consider the system to work equitably? Yes, 19; No, 9.

(b) Do you know of any cases of hardship? If possible, give details. Yes, 14; No, 10.

7. Has it had any effect in (a) cheapening land, or (b) making it easier to get? (a) Yes, 5; No, 28. (b) Yes, 12; No, 22.

8. Do the ratepayers and public seem satisfied with the system? Yes, 22; No, 3; Indefinite, 10.

In further explanation of these questions and answers it should be noted:

1. The tax is too slight to have any marked effect in discouraging speculation, especially in view of the general rise in land values, but in a number of cases weak holders have been compelled to sell to stronger holders, or to buyers of small lots for building.

2. In a few places, as in Wellington, where there is a great scarcity of building sites, the tendency already existing toward overcrowding has been increased. A higher tax would have a still greater effect in this direction.

3. The prosperity of New Zealand is chiefly due to the natural resources of the country, as yet only partially developed, and to the high prices for mutton, wool, and dairy produce that have prevailed during the past ten years. The effects of the land legislation have therefore been obscured. The policy of the government in encouraging closer settlement has doubtless contributed to the development of the country, but the rating on unimproved value has probably had little, if any, effect in promoting or retarding general or local prosperity.

4. The increase of buildings and other improvements has been due chiefly, if not altogether, to the general prosperity of the country, and the consequent increase of population. Districts where the old system of rating has been retained have prospered as much as the others. From 1901 to 1906 the population of New Zealand, exclusive of Maoris, increased by 15 per cent. The cities of Wellington and Christchurch, where rating on unimproved value is in force, increased by 25 per cent. and 18 per cent. respectively, while the city of Auckland, which has kept to the old system, increased by 22 per cent. Two of the suburbs of Auckland, Devonport and Grey Lynn, under the new rating, have increased by 35 and 43 per cent. respectively, yet the more conservative suburbs of Remuera, Mount Albert, and Epsom show gains of 42, 75, and 112 per cent. Karori and Onslow, suburbs of Wellington, which adopted rating on unimproved value in 1898 and 1901, have increased by 42 and 82 per cent., while the suburban boroughs of Petone and Miramar, which did not adopt the new rating until 1905, have increased by 56 and 95 per cent. The borough of Invercargill, which adopted the act in 1901, has increased by 16 per cent., and the borough of Invercargill South, under the old rating, has increased by 22 per cent. The boroughs of Waimate and Hamilton, where the new system has been in force since 1901, have increased by 20 and 75 per cent., yet the boroughs of Timaru and Gisborne, with the old rating in force, show gains of 18 and 108 per cent. The total population of the 21 boroughs which adopted the act before 1904 shows an increase of 24 per cent., while the total population of all the boroughs in New Zealand has increased by 22 per cent. The total population of the 10 counties where the act was adopted before 1904 has increased by 10 per cent., and the total county population of New Zealand has also increased 10 per cent. in the same time. So there is no evidence to show that the rating on unimproved value has either advanced or retarded the growth of the districts in which it has been adopted.

5. The tax is not sufficient to stimulate building to any marked extent, but if it were, and a large number of people improved their land for the sake of securing some revenue, and not in

response to increased demand, rents in general would fall, and the owners of improved property would lose as much as they had gained by exemption from taxation, or more. At the same time the propertyless class would gain by the reduction of rents.

6. The question of equity in the majority of cases has transformed itself into a question of the interests of the several classes concerned. There are two classes of owners: those whose unimproved value is much greater than the value of their improvements, and those who own a relatively greater value in improvements. Owners of the latter class are well satisfied with the rating on unimproved value, since it has reduced their taxes. Owners of the former class complain when their taxes are materially increased, but since land values have risen almost everywhere, most of these people have lost nothing and feel no great burden unless they are holding large quantities of unimproved land. There are many individual cases of hardship, as where a poor person in a borough has a large vegetable garden or a paddock for a cow. Some industries, too, such as lumberyards, foundries, and dairies, situated within a borough, have had their taxes greatly increased, and have been compelled to move to the country, where land is cheap. Not infrequently people owning large houses built upon small lots have had their taxes reduced, while some of their poorer neighbors have paid more. As a rule, however, a large house is built upon a large piece of land and a small house upon a small allotment. Moreover, rich people as a rule own more unimproved land than poor people. Therefore the adoption of the new system involves a shifting of the burden of local taxation from the many to the relatively few, and those few, in a progressive community, are usually those best able to bear it. In a stationary or declining community the case might be quite different.

Where the system has been adopted in counties containing towns, the taxes on rural property are relatively increased and those of town property relatively decreased; so that the country people complain and demand a system of differential rating, or a separation of the towns from the rural districts for purposes of rating. Again, in rural districts the rates fall more heavily upon

the holdings of new settlers than upon the improved holdings of their more prosperous neighbors.

7. Land values have risen greatly, notwithstanding the tax. This, together with the slight amount of the tax, is probably the cause of the general indifference of ratepayers to the question. There is still a great deal of speculation in land, and land values are probably too high, in view of a possible and even probable fall in prices of mutton and wool because of increasing competition on the part of Australia and Argentina.

8. A majority of the ratepayers have had their rates reduced and are well satisfied with this result. A large proportion of the minority are indifferent. The laboring-class, which is interested in the question of lower rents, is largely in favor of rating on unimproved value, but only those who own real estate can vote on the question. Town clerks are inclined to favor the system because it permits of a simplified system of bookkeeping. The minority who suffer hardship from the new rating have not sufficient influence to cause it to be abolished.

The facts here shown do not seem to warrant entirely optimistic conclusions. The benefits of rating on unimproved value are not so obvious as to command unanimous approval or to persuade all the rating districts of New Zealand to adopt it without delay. The opposition to the system appears to be growing stronger as people are coming to recognize its relation to the propaganda for single tax. The small land owners are greatly pleased when they can shift the burden of taxation from their own shoulders to those of their wealthy neighbors, but they are strong supporters of the freehold and will not readily consent to have their property confiscated by any radical extension of the principle of taxation of unimproved values. How far this process will go it is impossible to foretell, but that its ultimate results will be beneficial to the majority of the people is by no means certain.

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